IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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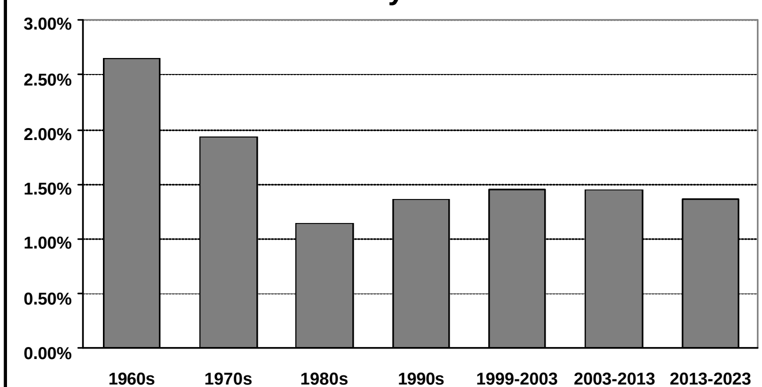
Speed Trap? On May 28, 1999 Montana became the last state to impose a speed limit. Just think. One day you're zooming across Big Sky Country on America's version of the autobahn, the next day you're stopped for speeding. Ironically, while Montana was dealing with its new speed limit, economists were debating whether the U.S. economy has a new "speed limit." In the early 1990s it was estimated that U.S. real gross domestic product (GDP) could advance about 2.5% annually without stoking inflationary fires. This limit was based on the assumptions that the labor force would expand 1.00% to 1.25% per year and productivity would increase about 1.25% to 1.50% annually. These assumptions have been on target for the most part, and real GDP growth has averaged 2.6% since 1989. However, the economy's recent behavior suggests that the speed limit may be higher. Since 1994, real GDP has expanded an average rate of 3.5% per year—a full percentage point higher than expected. Or put another way, the economy has been growing almost 50% faster than in the early 1990s. In spite of this increase, inflation has not only been under control, but has actually been lower than in the early 1990s. To stretch the driving analogy further, it is as if by speeding, you could improve your gas mileage.

How Fast was I Growing? The key question is whether the economy can keep up this pace. Of course, there are probably more opinions on this than there are economists. One thought is the current economic growth spurt is temporary and growth will slow back to the 2.5% trend as the business cycle plays itself out. However, this is not a typical cycle. Never has the economy been so strong or inflation so low this far into an expansion. This lack of inflation has kept the Federal Reserve from tightening and ending the current expansion. One of the reasons inflation has remained low is employer cost increases have been moderate. Part of this is due to deceleration in benefit costs thanks to the switch to HMOs. Another part is due to the productivity explosion. Simply put: Americans are producing more with less. This marks a welcome reversal from the recent trend of declining productivity growth. Productivity grew 2.7% annually in the 1960s, 1.9% in the 1970s, and just 1.1% in the 1980s. In the 1990s productivity growth has averaged about 1.4%, but it has accelerated recently. It grew at a 4.1% annual rate in this year's first quarter, and it is expected to advance 1.5% through 2003. This showing reflects the increased investment in capital goods. During the next five years, workers will have access to twice as much capital per hour than they did in 1980 (3.6 versus 1.8). The work force will also be more experienced with using this capital. For example, over time the desktop PC has gone from being an expensive door stop to a tireless card partner to an essential office tool. And the new generation of workers is even more computer savvy than the current work force. Consider that the IBM PC was introduced 18 years ago. Workers turning 18 this year are the first to have had computers their whole lives. Thus, the youngster who taught you how to use your computer is now old enough to be your coworker.

U.S. Productivity Growth, Average Annual Rate by Period



Source: Standard & Poor's DRI

The Road Ahead. Even with this injection of new blood and increased investment, it does not appear that productivity can keep up its current pace. It is likely to slide back to a still respectable 1.5% annual pace. This productivity growth is partially offset by the weaker labor force growth. By adding up all the pieces of growth, DRI calculates the speed limit of the economy to average 2.6% over the next five years, which is very similar to the limit estimated earlier this decade. So like every driver in the U.S., even the economy is subject to a speed limit.

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General Fund Update

As of May 31, 1999

	$ Millions		
Revenue Source	FY99 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	818.6	773.6	795.3
Corporate Income Tax	110.4	92.4	80.2
Sales Tax	577.6	527.2	537.2
Product Taxes[1]	15.7	14.3	14.5
Miscellaneous	73.6	46.0	46.4
TOTAL GENERAL FUND[2]	**1,595.9**	**1,453.5**	**1,473.5**

1 Product Taxes include beer, wine, liquor, and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 1999

General Fund revenue was $1.5 million above the target for May. The principal area of strength was in the Sales Tax revenue category, at $1.9 million more than expected for the month. Corporate Income Tax collections were $0.8 million ahead of the target for May. The Individual Income Tax was the only revenue category that performed below expectations, at $1.2 million less than expected. Overall, General Fund revenue is now $20.0 million ahead of the predicted level for the fiscal year to date.

Individual Income Tax collections departed from their usual behavior this fiscal year, coming in $1.2 million lower than expected for the month of May. This small shortage is due to a combination of higher-than-expected refunds and lower-than-expected filing collections. Withholding collections actually exceeded the predicted amount for May by $2 million, but this was not enough to offset the combined weakness of refunds and filing collections. This category is now $21.7 million ahead of the year-to-date target.

Corporate Income Tax collections bounced back a bit in May due to a combination of higher-than-expected filing collections (up $0.6 million) and lower-than-expected refunds (down $0.5 million). Estimated payments were $0.4 million lower than expected. There is now little doubt that this category will be considerably below the level forecast for FY 1999, and may be the only major revenue category that finishes the year below the forecasted level.

Sales Tax collections turned in the fourth consecutive month of better-than-expected performance, with $1.9 million more General Fund revenue than was expected. This brings the Sales Tax to a level $10.0 million above the year-to-date target, but it should be remembered that $6.5 million of this excess is due to a single large audit recovery in December.

Product Taxes were exactly on target in May, and Miscellaneous revenues were very close to the May target, coming in $0.1 million higher than expected.